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BOLT ENERGY LTD.

1997 ANNUAL REPORT

December 31, 1997

TO THE SHAREHOLDERS:

Bolt Energy Ltd. is pleased to present its Audited Financial Statements and report on activities for the year ended December 31, 1997.

OPERATIONS:

In 1997 Bolt Energy Ltd. participated in the drilling of four wells (1.8 net) resulting in two oil wells, one gas well and one suspended oil well. In addition, the Company acquired over 1,000 net acres of land, primarily in North Dakota, adding to its position at Tracy Mountain and surrounding area.

CANADA

At Sturgeon Lake, Alberta (Bolt 20%) the 4-9-71-23 W5M well was a new pool Leduc discovery and is currently producing 200 bbls of oil per day and 1.5 mmcf per day of gas. Bolt and its partners have acquired additional lands in the area, which will be evaluated during the course of 1998.

Bolt participated in a re-entry horizontal well into the Mannville formation at Enchant, Alberta. The well is currently being tied-in and expected production is 400 to 500 mcf per day of gas (Bolt 80%). Bolt has exposure to a sizable land position in this area and is developing additional locations.

Bolt has acquired lands associated with an excellent drilling prospect at Ante Creek, Alberta. A well is expected to be drilled in the 2nd half of 1998.

At Ardley, Alberta, Bolt (30% before and15% after pay-out) re-entered the 15-18-38-23 W4M well and drilled horizontally into the Nisku formation. The well encountered the Nisku but has yet to recover any significant oil volumes. The well is suspended until summer of 1998 when production testing will resume.

NORTH DAKOTA

At Tracy Mountain, North Dakota, Bolt's U.S. subsidiary, Bolt Energy America Inc. pooled a portion of its acreage and jointly drilled a horizontal well into the Fryburg formation. The well, 13x-2 (Bolt 35.496%) encountered an excellent pay-zone in the Fryburg formation and is currently producing in the range of 150 to 200 bbls of light sweet oil per day. Bolt has increased its land holdings by 2,000 acres to over 8,000 acres gross (4,400 net) at Tracy Mountain, North Dakota. This provides the Company with a development drilling program of up to fifteen additional Fryburg horizontal wells on trend with its discovery and several other producing horizontals offsetting Bolt lands. Most important for Bolt is the fact that the lands at Tracy Mountain were acquired to exploit the prolific oil bearing Tyler formation. The Fryburg discovery adds a whole new dimension to the potential of the Tracy Mountain project.

Bolt's activities in 1997 will increase daily production from 124 to 300 barrels of oil equivalent (+141%) in the first half of 1998 (60% oil and 40% gas).

FINANCIAL:

Bolt became a publicly traded company commencing July 8, 1997 upon successfully completing a $3 million initial public offering.

For the year ended December 31, 1997, cash flow was $252,609 and a net income before taxes of $23,409 based on oil and gas revenue of $856,924. Bolt maintained a strong balance sheet with working capital of $2,052,198 and no debt.

In 1997 Bolt's capital expenditures were $2,350,000 of which $1,700,000 was directed toward drilling and production activities and $650,000 towards land acquisition.

OUTLOOK:

For 1998, Bolt will continue its strategy of acquiring and participating in low risk drilling opportunities. Capital expenditures are expected to total at least $2.5 million, with the bulk to be spent in North Dakota. The Company has the financial capability to expand its capital program in the event of success or for the right opportunity.

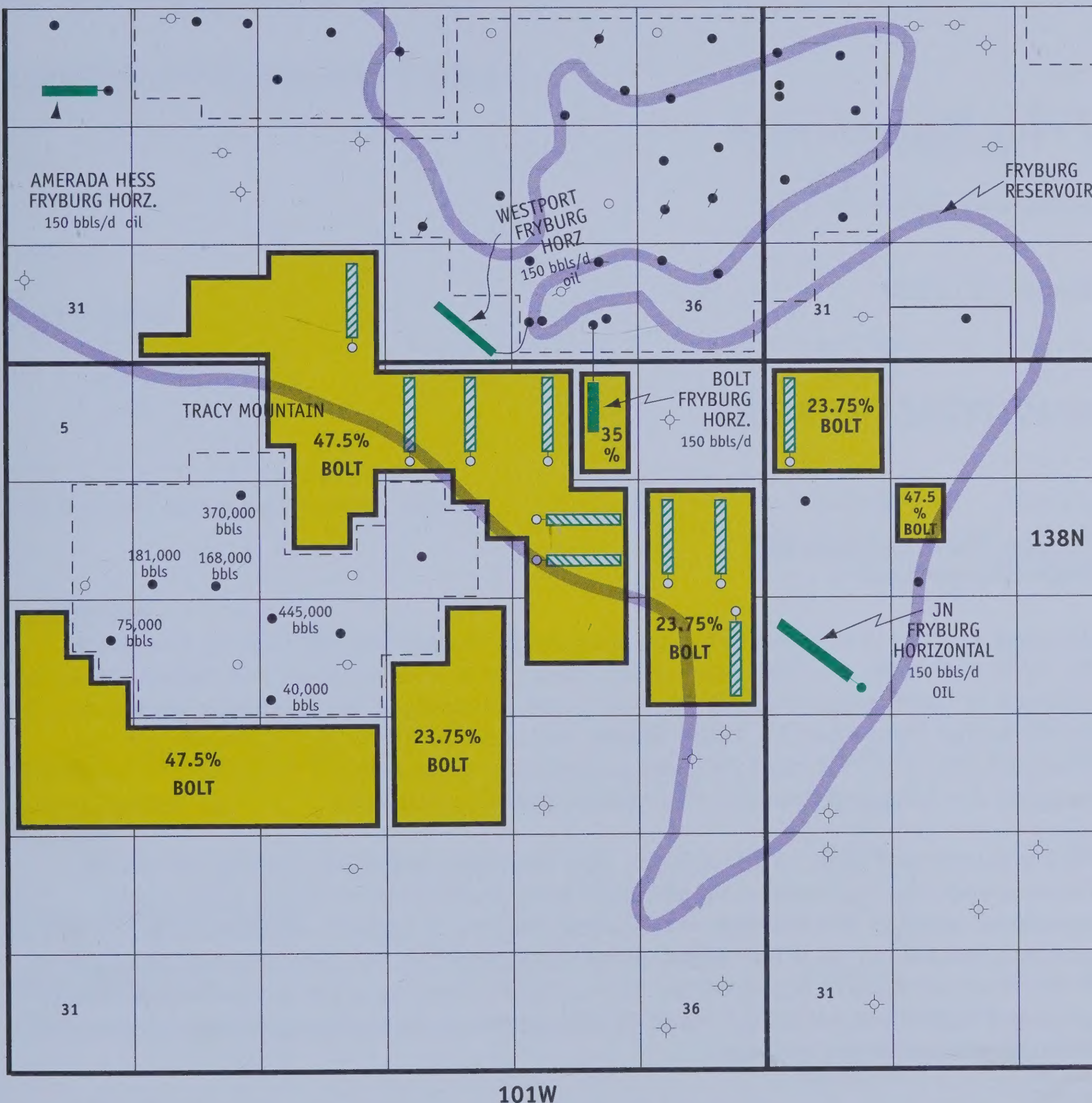
At Tracy Mountain, North Dakota, Bolt will develop its property by drilling up to six wells a year through to the year 2000. Both Fryburg and Tyler sands will be exploited in this program. In addition, lands have been acquired at Square Butte, North Dakota, which offset current Fryburg production. This property is analogous to Tracy Mountain and Bolt anticipates drilling on its 100% acreage within the next twelve months.

The Company is focusing on adding significant value through property/company acquisitions with the objective of completing a transaction within the next six months. We believe that Bolt has the strategy, the expertise and the opportunities to generate strong growth in 1998 and beyond.

On behalf of the Board of Directors

Raymond Chiarastella
President.

TRACY MTN, N. DAKOTA



Bolt Lands

Fryburg Formation Producing
Horizontal Oil Wells

Both Tyler and Fryburg Vertical
Well Producers

Low Risk, Potential
Horizontal Fryburg Locations

Chartered Accountants 1200, 425 - 1st Street S.W. (403) 267 1200
Calgary, Alta. T2P 3V7 Fax: (403) 267-5950

Price Waterhouse

March 12, 1998

AUDITORS' REPORT

To the Shareholders of
Bolt Energy Ltd.

We have audited the consolidated balance sheet of **Bolt Energy Ltd.** as December 31, 1997 and 1996 and the consolidated statements of operations and deficit and changes in financial position for the year ended December 31, 1997 and the six month period ended December 31, 1996. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1997 and 1996 and the results of its operations and the changes in its financial position for the year and period, respectively, then ended in accordance with generally accepted accounting principles.

Price Waterhouse
Chartered Accountants

CONSOLIDATED BALANCE SHEET

	December 31 1997	December 31 1996
Assets		
Current assets		
Cash	**$ 2,052,198**	$ 548,482
Accounts receivable	**297,230**	341,238
Prepaids	**5,393**	3,425
	2,354,821	893,145
Petroleum and natural gas properties (Note 2)	**4,589,767**	2,332,622
	$ 6,944,588	$ 3,225,767
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**$ 972,637**	$ 113,371
Site reclamation and abandonment	**27,921**	10,221
Deferred income tax	**192,407**	2,300
	1,192,965	125,892
Shareholders' Equity		
Share capital (Note 3)	**5,778,129**	2,344,290
Flow-through exchange warrants (Note 3)	**–**	764,393
	5,778,129	3,108,683
Deficit	**(26,506)**	(8,808)
	5,751,623	3,099,875
	$ 6,944,588	$ 3,225,767

Approved by the Board Warren Steckley, **Director** Raymond Chiarastella, **Director**

CONSOLIDATED STATEMENT OF OPERATIONS AND DEFICIT

	Year ended December 31 1997	Six month period ended December 31 1996
Revenue		
Oil and gas sales	$ 856,924	$ 387,847
Royalties	(140,262)	(50,420)
	716,662	337,427
Other income	51,465	11,545
Foreign exchange gain	9,991	10,029
	778,118	359,001
Expenses		
Production - oil and gas	335,457	169,882
General and administrative	190,052	91,406
Depletion, depreciation and amortization	229,200	104,221
	754,709	365,509
Net income (loss) before tax	23,409	(6,508)
Deferred income tax provision (Note 4)	(41,107)	(2,300)
Net loss for the year	(17,698)	(8,808)
Deficit at beginning of year	(8,808)	–
Deficit at end of year	$ (26,506)	$ (8,808)

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	Year ended December 31 1997	Six month period ended December 31 1996
Cash provided by (used in) operating activities		
Net loss for the year	$ (17,698)	$ (8,808)
Add items not affecting cash		
Depletion, depreciation and amortization	229,200	104,221
Deferred income tax	41,107	2,300
	252,609	97,713
Increase (decrease) in non-cash working capital	901,306	(231,292)
	1,153,915	(133,579)
Cash provided by (used in) financing activities		
Issue of common shares and warrants	3,118,500	3,248,110
Share and warrant issue costs	(300,054)	(139,427)
	2,818,446	3,108,683
Cash used in investing activities		
Purchase of fixed assets	(2,468,645)	(2,426,622)
Increase in cash	1,503,716	548,482
Cash at beginning of year	548,482	–
Cash at end of year	$ 2,052,198	$ 548,482

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1997

1 Significant accounting policies

(a) Incorporation

Bolt Energy Ltd. (the "Company") was incorporated under the Alberta Business Corporations Act effective February 7, 1996. It commenced operations as a result of major property acquisitions which closed on July 1, 1996 and September 4, 1996.

(b) Principles of consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Bolt Energy America Inc.

(c) Petroleum and natural gas properties

The Company follows the Canadian full cost method of accounting for oil and gas operations whereby all exploration and development expenditures are capitalized by country. Such expenditures include land acquisition costs, geological and geophysical expenses, carrying charges for unproved properties, costs of drilling both productive and non-productive wells, gathering and production facilities, and financing and administrative costs directly related to capital projects. Proceeds from sales of oil and gas properties are recorded as reductions of capitalized costs, unless the country's depreciation and depletion rate would change by a factor of 20% or more, whereupon gains or losses are recognized in income. Maintenance and repair costs are expensed as incurred, while improvements and major renovations to assets are capitalized.

Costs accumulated in a producing country, including provision for necessary future development expenditures, are depreciated and depleted using the unit-of-production method based upon estimated proved reserves before provision for royalties, with gas converted to equivalent barrels of oil on an approximate energy equivalent basis.

Capitalized costs of oil and gas are subject to a year end ceiling test evaluation. Costs accumulated in each country are limited to the unescalated and undiscounted estimate of future net revenues from production of proved reserves, plus the lower or cost or estimated fair value of unproved properties. Future net revenues are determined after provision for royalties, direct operating costs, development expenditures and the cost of site restoration. In addition, costs accumulated in all countries are evaluated on a consolidated basis after consideration of future interest expense, administrative costs and income taxes attributable to those operations. Year end costs and prices are used, except during periods of rapid fluctuations when more representative average prices may be used.

(d) Joint ventures

Substantially all petroleum and natural gas activities are conducted jointly with others and, accordingly, the accounts reflect only the Company's proportionate interest in such activities.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1997

(e) Future site restoration costs

The estimated costs for future site restorations and abandonments, net of expected recoveries, are provided for on a unit-of production basis. Estimates are based on costs and regulations in effect at year end. The annual charge is included in the statement of income and the related accumulated provision is shown as a non-current liability. Removal and site restoration expenditures are charged to the accumulated provision account as incurred.

(f) Foreign currency translation

The accounts of the United States subsidiary, accounted for as an integrated operation, have been translated into Canadian dollars using the temporal method as follows:

(i) monetary items, at the exchange rate at the end of the year;

(ii) non-monetary items, at the approximate rate of exchange at the time the transaction occurred;

(iii) revenues and expenses, at the average rate of exchange for the year, except for items relating to the balance sheet accounts which are translated at historical exchange rates.

Any resulting foreign exchange gains or losses have been reflected in the statement of income.

(g) Financial instruments

The Company's financial instruments that are included in the consolidated balance sheet are comprised of cash, accounts receivable and current liabilities:

(i) **Fair value of financial assets and liabilities**

The fair market value of financial instruments that are included in the consolidated balance sheet approximate their carrying value due to the short-term nature of those instruments.

(ii) **Credit risk**

An outstanding portion of the Company's accounts receivable are with customers in the oil and gas industry and are subject to normal industry credit risks.

(h) Flow-through shares

The resource expenditure deductions for income tax purposes related to exploratory and development activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. Share capital is reduced by amounts equal to the estimated income tax benefits renounced by the Company to the investors. This reduction is recorded when the exploration and development expenditures are renounced to investors.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1997

2 Petroleum and natural gas properties

	1997 Cost	1997 Accumulated depreciation and depletion	1997 Net book value	1996 Net book value
Oil and gas properties				
Canada	$ 2,459,762	$ 305,500	$ 2,154,262	$ 1,311,683
U.S.	2,435,505	–	2,435,505	1,020,939
	$ 4,895,267	$ 305,500	$ 4,589,767	$ 2,332,622

The Company has not capitalized general and administrative costs during the year. The United States properties were non-producing during 1997.

At December 31, 1997, the Company has costs of $148,000 (1996 - $175,000) which have no tax basis for income tax purposes.

At December 31, 1997, $143,000 (1996 - nil) of undeveloped land costs were excluded from the depletable cost base.

3 Share capital

(a) Authorized - Unlimited common shares with no par value

(b) Outstanding common shares

	Number of Shares	Amount
Common shares		
Balance, December 31, 1995	–	$ –
Issued for cash	6,819,000	2,289,110
Issued for properties	350,000	175,000
Share issue costs	–	(119,820)
Balance, December 31, 1996	7,169,000	2,344,290
Issued for cash	3,000,000	3,000,000
Conversion of exchange warrants to common shares	784,000	764,393
For cash on exercise of warrants	237,000	118,500
Renounced tax benefit on flow through shares	–	(345,000)
Share issue costs, net of tax	–	(104,054)
Balance, December 31, 1997	11,190,000	$ 5,778,129)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1997

(c) On December 31, 1996, the Company issued 784,000 flow-through exchange warrants for cash, entitling the holders to acquire 784,000 common shares without payment of additional consideration until December 31, 1997. Total proceeds were $784,000. The Company is committed to expend and renounce $784,000 in qualified expenditures. In 1997, the Company renounced these expenses.

	Number of exchange warrants	Amount
Exchange Warrants		
Balance, December 31, 1995	–	$ –
Issued for cash less issue costs, pursuant to flow through share agreements	784,000	764,393
Balance, December 31, 1996	784,000	764,393)
Conversion of exchange warrants to common shares	(784,000)	(764,393)
Balance, December 31, 1997	–	$ –

(d) The Company issued 3,000,000 units in an initial public offering for $1 per unit. Each unit consisted of one common share and half a warrant. The warrants expired January 76, 1998, having never been exercised.

(e) In 1996, the Company issued 237,000 warrants pursuant to an agency agreement, entitling an agent to acquire 237,000 common shares at an exercise price of $0.50 per common share until July 31, 1997. In 1997, these warrants were exercised.

(f) In 1997, the Company issued 3000,000 warrants pursuant to an agency agreement, entitling an agent to acquire 300,000 common shares at an exercise price of $1.00 per common share until July 7, 1998. These warrants are still outstanding.

(g) At December 31, 1997, common shares were reserved in respect of options granted to directors, officers and employees to acquire 1,095,000 shares at exercise prices ranging from $0.50 to $1.00.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1997

4 Income taxes

Income tax expense varies from the amounts that would be computed by applying the Canadian Federal and Provincial tax rates that are applicable to a Public Company to earnings before income taxes. The 1996 comparative is not provided as the Company was private. The reconciliation of the combined statutory income tax is as follows:

Effective Canadian tax rate	44.62%
Computed "expected" tax	$ 10,445
Increase (decrease) in taxes resulting from	
Non-deductible crown charges	56,160
Non-deductible depletion and depreciation	6,968
Resource allowances	(32,092)
Non-taxable foreign exchange conversion	(4,458)
Other	1,803
	38,826
U.S. expenses not tax affected	2,281
	$ 41,107

At December 31, 1997, the Company has Canadian income tax deductions related to petroleum and natural gas assets of approximately $1,149,309 and $2,435,505 of available U.S. deductions.

CORPORATE INFORMATION

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T2P 2Z1

STOCK EXCHANGE LISTING

The Alberta Stock Exchange
Symbol: BLT
BLT.WT

BANKERS

Hongkong Bank of Canada

SOLICITORS

Code Hunter Wittmann
Calgary, Alberta

AUDITORS

Price Waterhouse
Calgary, Alberta

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President, Scorpion Energy Inc.
Calgary, Alberta

Warren Steckley
Independent Businessman
Calgary, Alberta

Raymond Chiarastella
President, Chief Executive Officer,
Chief Financial Officer
Calgary, Alberta

OFFICERS AND MANAGEMENT

Raymond Chiarastella
President

Earl Tobin
Manager, Exploration and Development

Jeffrey Dyck
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